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Viewing cable 09MANAGUA571, NICARAGUA: IMF REPRESENTATIVE ON BUDGET SUPPORT,

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- The top box shows each cables unique reference number, when and by whom it originally was sent, and what its initial classification was.
- The middle box contains the header information that is associated with the cable. It includes information about the receiver(s) as well as a general subject.
- The bottom box presents the body of the cable. The opening can contain a more specific subject, references to other cables ([browse by origin](#) to find them) or additional comment. This is followed by the main contents of the cable: a summary, a collection of specific topics and a comment section.

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Reference ID	Created	Released	Classification	Origin
09MANAGUA571	2009-06-09 22:14	2011-08-30 01:44	CONFIDENTIAL	Embassy Managua

Appears in these articles:

<http://www.nacion.com/2011-05-30/Mundo/NotasSecundarias/Mundo2758456.aspx>
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<http://www.confidencial.com.ni/articulo/3967/barreto-era-ldquo-fuente-confiable-rdquo-para-eeuu>

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SUBJECT: NICARAGUA: IMF REPRESENTATIVE ON BUDGET SUPPORT,
VENEZUELAN ASSISTANCE

Classified By: Classified by Ambassador Robert J. Callahan for reasons
1.4 b & d.

Summary

1. (C) The International Monetary Fund's (IMF) Resident Representative in Nicaragua told the Ambassador on June 4 that the IMF is negotiating with the Nicaraguan Government (GON) and other international financial institutions to provide \$85 million in direct budget support for the Ortega Administration, which would all but close the country's \$120 million budget gap. He also told the Ambassador that Venezuela provided well over \$400 million to Nicaragua in 2008 (including foreign direct investment) and that assistance in 2009 will likely total as much. Arbulu referred the Ambassador to a Nicaragua Central Bank report, summarized in paragraph 7, for additional details on 2008 Venezuelan assistance. End summary.

2009 Budget: IMF to the Rescue

2. (C) The IMF's Resident Representative in Nicaragua, Humberto Arbulu-Neira, met with the Ambassador on June 4 to discuss important modifications to Nicaragua's Poverty Reduction and Growth Facility (PRGF). To date, the IMF has provided funds under the PRGF solely to the Central Bank to strengthen its international reserves. However, according to Arbulu, a worldwide IMF policy shift in the wake of the global financial crisis means that these same funds are now available for direct budget support to national governments. For Nicaragua, this is particularly significant because European countries withdrew budget support after fraudulent 2008 municipal elections, leaving a budget shortfall of \$120 million for 2009.

3. (C) Arbulu told the Ambassador that the IMF, World Bank, and Inter-American Development Bank are currently negotiating with the Central Bank and the Ministry of Finance to provide \$85 million in budget support for 2009. That would leave a balance of \$35 million -- a sum that according to Arbulu the GON could easily make up by cutting spending and issuing \$15 million in short-term debt. Arbulu said that an IMF technical team had just completed a two-week visit to Nicaragua on June 3, and that Arbulu himself, along with Central Bank President Antenor Rosales, would travel to Washington soon to wrap up an agreement at IMF headquarters. Arbulu warned that negotiations may be contentious, because

the agreement would include additional requirements for fiscal oversight that the IMF would demand in exchange for providing direct budget support.

¶4. (C) Looking ahead to an upcoming IMF macroeconomic review of Nicaraguan progress under the PRGF, Arbulu said that he expected the GON to make the grade, though various European governments could "create problems" over the November 2008 electoral fraud. However, Arbulu suggested that the budget situation for 2010 could be complicated. He said that the GON may need to move forward with tax increases that Ortega postponed this year given the economic situation. Note: These are issues Arbulu's successor will have to deal with. Arbulu has served as the IMF's Resident Representative for over four years and is transferring to Washington in July. His replacement is expected in August. End note.

IMF Views on Venezuelan Assistance to Nicaragua

¶5. (C) Arbulu told the Ambassador that Venezuela provided more than \$400 million in assistance to Nicaragua in 2008. He reported that the IMF had verified the figure and that it was accurate. Arbulu stressed that this is a large sum of money for a small economy such as Nicaragua's. For additional information on Venezuelan assistance in 2008, Arbulu referred the Ambassador to a Nicaraguan Central Bank report published on June 4 called "External Cooperation," which contains a two-page section on Venezuelan financial assistance (see paragraph 7).

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¶6. Arbulu said Venezuelan assistance in 2009 would likely top \$400 million, including foreign direct investment and additional funds derived from the sale of Venezuelan petroleum through the Bolivarian Alternative for the Americas (ALBA), so-called "Petroleum Cooperation." He told the Ambassador that in 2009 Venezuela's PDVSA (Petroleos de Venezuela) would install state-of-the-art South Korean generators valued at \$180 million. PDVSA will also build a plastics factory and move forward with feasibility studies for an oil refinery called "Bolivar's Supreme Dream." Arbulu said "Petroleum Cooperation" would be used to bolster the balance sheet of FSLN-linked financial cooperative ALBA-CARUNA, making it one of the largest financial institutions in Nicaragua by the end of 2009.

Central Bank Report Identifies \$457 in Cooperation

¶7. (C) The Central Bank's 2008 "External Cooperation" report states that Nicaragua benefited from \$457 million in support from Venezuela during the previous year, summarized as follows:

¶A. ALBA Petroleum Cooperation (in millions)

Proceeds:

Donations through ALBA Development Fund:	\$147
Loans through ALBA-CARUNA:	\$146

Total:	\$293

Expenditures:

Subsidies for Public Transportation:	\$50
Streets and Houses for the People:	\$23
Food Security:	\$6
Agricultural Microfinance:	\$69
Health/Education:	\$8
Urban Transportation:	\$3
Institution Building:	\$23
Financing for Electricity Generation:	\$111

Total:	----- \$293
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B. Bilateral Cooperation

Donations to Water Utility:	\$2
Donations to Private Sector:	\$22
Loans from Venezuelan Development Bank:	\$9

Total:	\$33

C. Foreign Direct Investment

Electricity Generation (120 MW):	\$98
Two Petroleum Storage Tanks:	\$25
Construction Equipment:	\$8

Total:	\$131

Comment

18. (C) Arbulu's explanation of the IMF's current policy perspective toward Nicaragua is a significant departure from its previous position, which was to provide funds exclusively for strengthening the Central Bank's international reserves. Undoubtedly, the GON will be thrilled to learn that the IMF can provide direct budget support. That would resolve the fiscal crisis created by the withdrawal of European donors in the wake of fraudulent 2008 municipal elections. On the positive side, direct IMF budget support and oversight may improve fiscal transparency. IMF budget support would also spare Nicaragua a fiscal crisis that Ortega may have resolved by tapping foreign reserves and undermining the country's stable monetary policy in the process.
CALLAHAN